CANADIAN EXPORT GAS & OIL LTD.

CEGO

CANADIAN EXPORT GAS & OIL LTD.

ANNUAL REPORT APRIL 30, 1971

DIRECTORS	AUGUST F. BECK, *Calgary* *President and General Manager of the Company*
	F. R. BURTON, *Toronto* *President and a Director of Alminex Limited*
	JOHN DRYBROUGH, *Winnipeg* *Chairman of the Board of Newmont Mining Corporation of Canada Limited*
	FRANCIS KERNAN, *New York* *A Limited Partner of White, Weld & Co.*
	P. C. LAUINGER, *Tulsa* *Chairman of the Board* *The Petroleum Publishing Company*
	PLATO MALOZEMOFF, *New York* *Chairman of the Board, President and a Director of Newmont Mining Corporation*
	MILTON H. MANDEL, *New York* *An Attorney-at-Law*
	FRANCIS E. RINEHART, *New York* *Counsel, Newmont Mining Corporation*
	FRANZ SCHNEIDER, *New York* *Financial Consultant*
OFFICERS	AUGUST F. BECK, *President and General Manager* PAUL C. EVANS, *Vice-President – Production* W. P. HANCOCK, *Vice-President – Exploration* DEREK N. WALKER, *Secretary-Treasurer* FRANCIS E. RINEHART, *Assistant Secretary*
HEAD OFFICE	736 -8TH AVENUE S.W., CALGARY 2, ALBERTA
SUBSIDIARIES	CANEX GAS LTD. CEGO MINERALS LTD.
SHARES LISTED	AMERICAN STOCK EXCHANGE, *New York* MIDWEST STOCK EXCHANGE, *Chicago* THE TORONTO STOCK EXCHANGE
TRANSFER AGENTS	CROWN TRUST COMPANY, *Calgary and Toronto* HARRIS TRUST AND SAVINGS BANK, *Chicago* BANKERS TRUST COMPANY, *New York*
REGISTRARS	CROWN TRUST COMPANY, *Calgary and Toronto* AMERICAN NATIONAL BANK AND TRUST COMPANY, *Chicago* THE BANK OF NEW YORK, *New York*
AUDITORS	PEAT, MARWICK, MITCHELL & CO., *Calgary*

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HIGHLIGHTS

		1970-71	1969-70
PRODUCTION (Net after royalties):			
Oil and Gas Liquids Production – Annual	Barrels	480,268	486,192
– Daily Average	Barrels	1,316	1,332
Gas Production – Annual	Billion Cubic Feet	6.804	6.779
– Daily Average	Million Cubic Feet	19	19
Sulphur Production – Annual	Long Tons	5,466	3,855
– Daily Average	Long Tons	15	11
EARNINGS:			
Gross operating income less royalties paid:			
Crude oil sales		$1,239,000	$1,145,000
Natural gas sales		$1,068,000	$1,093,000
Royalty income		$ 158,000	$ 161,000
Sulphur sales		$ 12,000	$ 20,000
		$2,477,000	$2,419,000
Cash flow from operations		$1,101,000	$1,181,000
Per share		14¢	15¢
Net earnings before extraordinary item		$ 203,000	$ 179,000
Per share		2¢	2¢
Net earnings		$ 421,000	$ 375,000
Per share		5¢	5¢
CAPITAL INVESTMENT:			
Exploration		$1,015,000	$ 993,000
Development		$1,529,000	$ 844,000

TO THE SHAREHOLDERS

Highlights of the past year include:

- The completion of the Strachan gas plant. The plant has operated at virtually full capacity since production started February 8, 1971. (See below, and page 4).

- Continued acquisition of acreage in the Deep Basin – Foothills area of Alberta, and exploration activity at several locations within the overall region. (See below, and page 6).

- Marine seismic surveys and evaluation of Company acreage in the Arctic – Beaufort Sea and off the coast of Labrador. (See pages 6 and 8).

- Three successful oil wells were drilled in the Meekwap area. A gas well was completed in the Flatrock area of northeastern British Columbia. (See pages 4 and 8).

Financial

Gross operating income of $2,477,000 was 2% higher than last year and net earnings before extraordinary items were up 13% to $203,000. Net earnings were $421,000 compared with $375,000 in 1970, after including gains on sale of property in both years. Cash flow was $1,101,000 compared with $1,181,000 in the previous year, the drop being mainly due to higher operating costs and increased acreage rentals. Certain of the 1970 comparative figures have been restated to reflect an operating income adjustment and a change in the Company's depreciation policy as explained in notes to the financial statements.

The cash flow for 1971-72 is expected to increase substantially due mainly to new income from the Strachan gas plant.

Drilling

Sixteen wells in which the Company had a participation, were drilled in 1970-71. Three were successful oil development wells (2 at 22%, 1 at 11%) and two were successful gas development wells (16.5%). One was a gas extension (5%) and ten were dry holes in which the Company had an equivalent interest of 1.1 net wells. The Company is currently participating in two Alberta Deep Basin tests in which it has 15% and 6% interest.

Production

Natural gas production in 1970-71 was 6.804 billion cubic feet, the same as last year. Oil and natural gas liquids production was 480,268 barrels, slightly below last year. Sulphur production was 5,466 long tons.

The Strachan plant began production February 8, seven weeks later than the schedule projected in last year's Annual Report. In the eleven weeks of production to April 30, the plant operated near capacity.

Exploration

The increased cash flow available to the Company from the Strachan development will make possible a more aggressive exploration program.

During the past year CEGO has been increasing its activity and interest in the Deep Basin-Foothills area of Alberta where major gas strikes have been made. Land acquisition and surveys in the past year have laid the groundwork for further exploration and drilling in 1971-72.

Canadian Export has also pursued exploration of its offshore Beaufort Sea and Labrador acreage through an active seismic program.

These two major new areas of interest are supplementing the Company's continuing exploration program elsewhere in Alberta and British Columbia. Exploratory wells were drilled in ten different areas last year, and considerable new acreage was acquired.

General

Up to the present time, essentially all Canadian reserves of oil and gas have been discovered in the shallower plains portion of the Western Canadian Basin and Southern Foothills belt. Undoubtedly, additional discoveries will be found in these areas but there has been a discouraging lack of success over the past 5-6 years. As a result, much of the exploration activity has been diverted to the Mackenzie Delta in the Northwest Territories and its adjacent offshore area in the Beaufort Sea, the Arctic Islands and the offshore East Coast. The Deep Plains-Foothills area in Alberta is also receiving more attention since it is now more economically attractive because of the increased demands and higher prices for gas. These efforts by the petroleum industry to fulfill Canada's continually expanding energy demands will require still greater amounts of risk capital, technical skill and patience.

The responsibility is then on the Canadian public and its legislators to provide the requisite financial and political climate to encourage this effort. Legislation which curtails industry incentives and discourages inflow of investment will defeat the objectives of the industry and the requirements of the country.

The Management regretfully accepted the resignation of Mr. H. W. Tripp from the Board, due to retirement from active business. The Board wishes to express sincere appreciation for Mr. Tripp's valuable contributions during his term.

We are pleased to announce that Mr. P. C. Lauinger of Tulsa, Oklahoma, was elected Director. Mr. Lauinger is Chairman of the Board of Petroleum Publishing Company which publishes Oil and Gas Journal and several other petroleum periodicals.

The Management again wishes to express its appreciation to its employees and shareholders for their loyalty and interest, without which the Company could not continue to develop.

On behalf of the Board,

A. F. Beck

A. F. Beck
President

June 4, 1971

PRODUCTION

Oil & Gas Liquids Production

The Company's oil and gas liquids production in 1970-71 was 480,268 barrels, essentially the same as last year.

Three successful development wells and one dry hole were drilled at Meekwap. A crude oil pipeline has been built permitting delivery of oil year round. A secondary recovery program is being studied for possible implementation in late 1971.

Gas Production

CEGO's net gas production in 1970-71 was 6.804 billion cubic feet compared to 6.779 billion cubic feet last year.

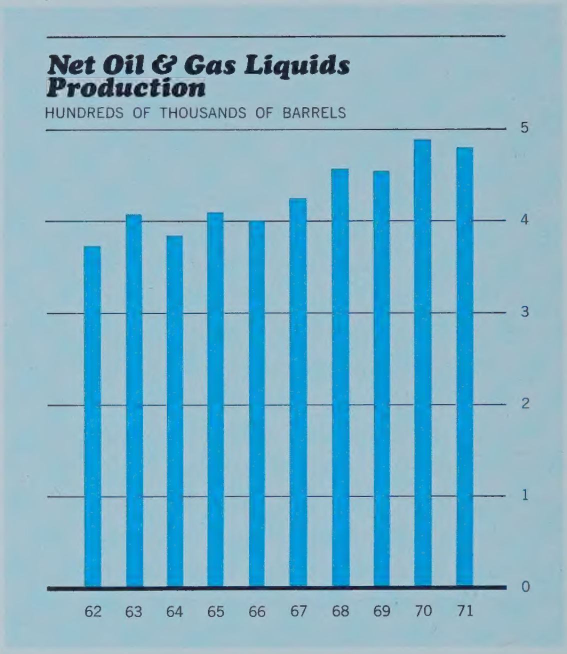
The Strachan gas plant produced 1.014 billion cubic feet in February, March and April. This plant is producing near capacity, well above the contract minimums.

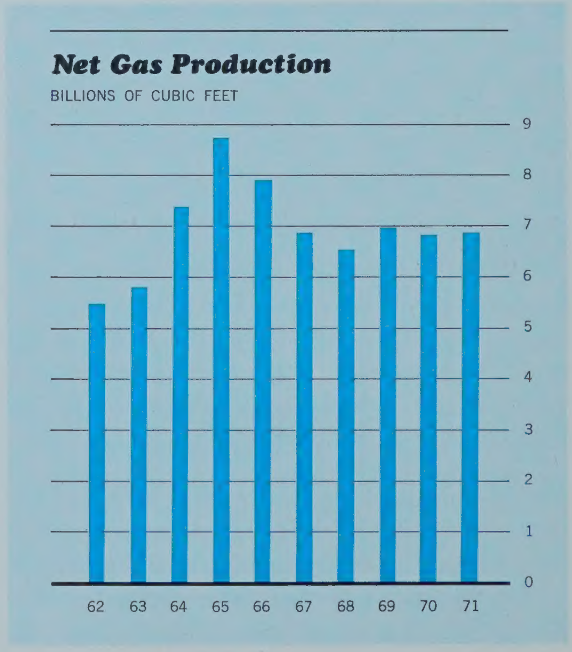
Two successful gas development wells were drilled and connected to the gas gathering system in the Bindloss field to maintain deliverability required under the gas purchase contract. The Company's interest in this unitized operation is 16.5%.

A gas purchase contract is being negotiated for the successful Flatrock extension described in the Exploration section. Delivery is expected to begin November 1, 1971.

The Company's participation in the Kaybob South Unit No. 1 was reduced from .68% to .03% by redetermination under the unit agreement. CEGO obtained a reimbursement of $250,000 representing repayment under the original unit participation.

Sulphur production amounted to 5,466 long tons compared to 3,855 last year. The bulk of CEGO's sulphur production is being stockpiled pending an improvement in market conditions.





Net Oil & Gas Liquids Production by Fields

(After Royalties)

	1971	1970	1969	1968	1967
	(Net Barrels)				
Virden-Roselea, Man.	163,147	172,152	161,962	148,192	150,444
Florence-Carnduff, Sask.	58,381	64,580	71,352	79,479	90,964
Swan Hills, Alberta	84,359	88,088	70,140	57,734	28,378
Big Valley, Alberta	41,975	37,722	30,681	35,704	29,859
Crossfield, Alberta	20,868	22,025	30,635	37,947	36,682
Virginia Hills, Alberta	23,899	24,294	22,753	17,823	9,865
Northgate, Sask.	8,638	10,926	14,923	22,536	30,840
Manyberries, Alberta	7,049	9,754	10,798	12,483	12,575
Wood River, Alberta	4,368	4,750	5,532	6,178	7,011
Browning-Willmar, Sask.	6,367	5,705	4,308	11,211	13,553
Swalwell, Alberta	2,895	2,080	1,710	2,295	1,909
Willey, Ontario	—	—	—	5,195	8,967
Zama-Virgo, Alberta	11,763	11,581	—	—	—
Meekwap, Alberta	6,435	—	—	—	—
Other Areas	443	596	672	472	511
Natural Gas Liquids	39,681	31,939	15,263	5,780	4,132
	480,268	486,192	440,729	443,029	425,690

Net Gas Production by Fields

(After Royalties)

	1971	1970	1969	1968	1967
	(Billion Cubic Feet)				
Steveville	1.320	1.690	2.065	2.115	2.124
Bindloss	1.923	2.157	1.731	1.706	1.769
Hilda	1.533	1.644	1.703	1.395	1.501
Sedalia	0.393	0.397	0.392	0.348	0.398
Wood River	0.173	0.244	0.348	0.276	0.277
Atlee-Buffalo-Jenner	0.103	0.199	0.287	0.289	0.321
Ghost Pine	0.105	0.195	0.160	0.071	—
Countess Duchess	0.085	0.085	0.104	0.109	0.118
East Crossfield D-1	0.110	0.098	0.070	0.019	—
Braeburn (Saddle Hills)	—	0.026	0.047	0.097	0.218
Crossfield-Turner Valley	0.045	0.044	0.039	0.038	0.026
Ontario	—	—	—	0.099	0.115
Strachan	1.014	—	—	—	—
	6.804	6.779	6.946	6.562	6.867

EXPLORATION & LAND

DEEP BASIN-FOOTHILLS

(see map at right)

Discovery of the Strachan gas field in 1968 and subsequent developments in this area have highlighted the potential of the Deep Basin and adjoining Foothills belt of Alberta. Canadian Export, in addition to its participation in the Strachan field and immediate area, has made important additions to its representation in this play. At the present time the Company has acquired acreage interests in, and is participating in the exploration of, some 300,000 acres in the area northwest of Strachan extending to the British Columbia boundary.

Nose Creek

140,576 acres, 12½% interest

An additional seismic program was conducted on this acreage during the winter work season. The interpretation of this work is currently under way.

Pinto Area

31,520 acres up to 25% interest

A seismic program was conducted during the latter part of the fiscal year and is currently being interpreted. The Company has an option with its partner in this venture to drill a Leduc reef test to earn jointly up to 50% interest in a part of the lands involved. A second option to drill a like well will earn a similar interest in the remainder of the acreage.

Moberly Area

73,340 acres, 6% interest

The Company is participating with others in evaluation by drilling a large seismic feature in this area of the Foothills. The well in Lsd. 11-23-53-2-W6M has been experiencing mechanical problems but is now drilling ahead at 5,781 feet. The objective of the well is the Mississippian formation which is the gas producing zone in the Edson field 50 miles to the east.

Brule Area

26,880 acres, 6¼% interest

Participation in a well drilled in Lsd. 10-12-50-27-W5M has earned the Company a net 6¼% interest in 26,880 acres of P & NG Reservation. An option to earn a like interest in a further 14,720 acres is currently outstanding. The first test was dry and abandoned at 9,534 feet.

Lovett Area

21,280 acres, 4-6% interest

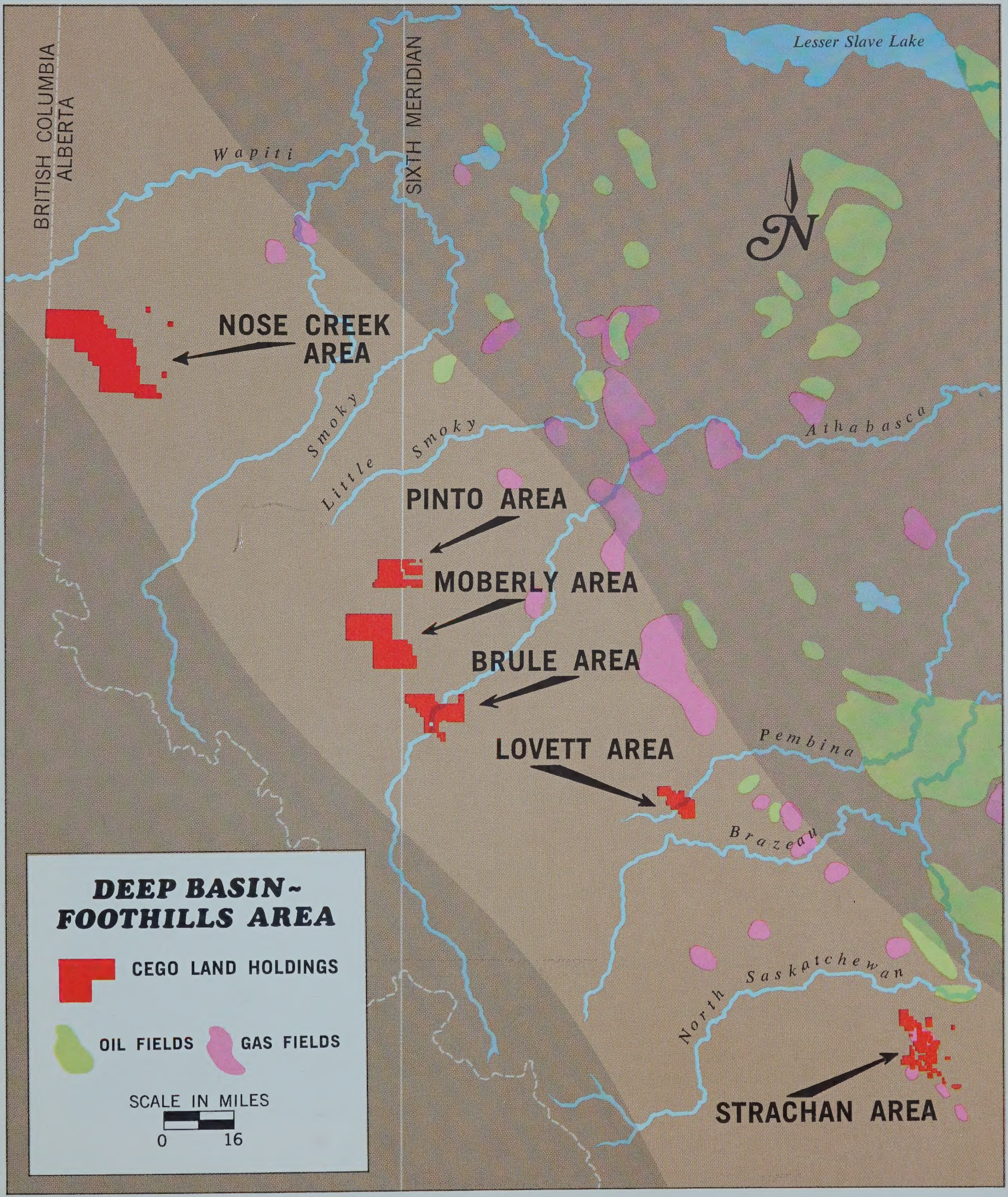
A participating interest was acquired in a deep test in Lsd. 2-1-47-18-W5. The well is a test of a seismic anomaly to evaluate the Leduc reef and will be drilled to an estimated depth of 15,500 feet.

OFFSHORE EXPLORATION

(see map page 10 and 11)

During the past year marine seismic surveys were conducted on Company acreage in the Liverpool Bay – Atkinson area of the Beaufort Sea. A second oil discovery on Tuktoyaktuk Peninsula 60 miles south of CEGO acreage was announced in May 1971 by Imperial Oil, intensifying exploratory interest in this region. Additional seismic surveys are scheduled on Company acreage for the summer of 1971.

Seismic surveys were also conducted on CEGO offshore Labrador acreage in 1970.


BRITISH COLUMBIA
ALBERTA
SIXTH MERIDIAN
Lesser Slave Lake
Wapiti
N
NOSE CREEK AREA
Smoky
Little Smoky
Athabasca
PINTO AREA
MOBERLY AREA
BRULE AREA
LOVETT AREA
Pembina
Brazeau
North Saskatchewan
STRACHAN AREA
DEEP BASIN - FOOTHILLS AREA
CEGO LAND HOLDINGS
OIL FIELDS
GAS FIELDS
SCALE IN MILES
0
16

Mechanical and technical problems prevented the offshore program for Great Bear Lake in 1970, but the work has been rescheduled for 1971.

A seismic survey will be conducted by Mobil Oil on Hudson Bay acreage held jointly with your Company. Upon completion of their obligation they will earn a 50% interest.

OTHER EXPLORATION

The Company participated in the drilling of nine exploratory wells in addition to the Brule test mentioned above. One of these is a successful extension of the gas producing area at Flatrock in northeast British Columbia. CEGO's interest in the well is 5.3%, and the Company also owns a 24% interest in three adjoining sections.

Of the nine dry holes drilled four were acreage earning wells drilled under farmout agreements and three were drilled by others on CEGO acreage at no cost to the Company.

Other acreage acquisitions by agreement or purchase include an option to earn ½ interest in up to 21,120 acres of P & NG lease in the East Drumheller area of Alberta, the purchase of ⅓ interest in 48,740 acres of P & NG Permits and leases at Saddle Lake, Alberta and the purchase of ⅓ interest in a 25,822 acre permit in the Midwinter area of N.E. British Columbia.

Acreage reductions were made in northwestern Alberta where CEGO, together with partners, relinquished certain lease blocks.

The sum effect of the acreage changes amounted to a reduction of some 56,000 acres, to 2,638,382 net acres.

LAND AND ROYALTY HOLDINGS

as at April 30, 1971

	Gross	Net
Alberta	1,197,631	408,927
Saskatchewan	11,942	9,569
Manitoba	1,369	1,369
British Columbia	36,592	11,682
East Coast	951,167	475,583
Northwest Territories	929,787	292,718
Beaufort Sea	824,638	412,319
Hudson Bay	2,052,430	1,026,215
	6,005,556	2,638,382

MINING PROPERTIES

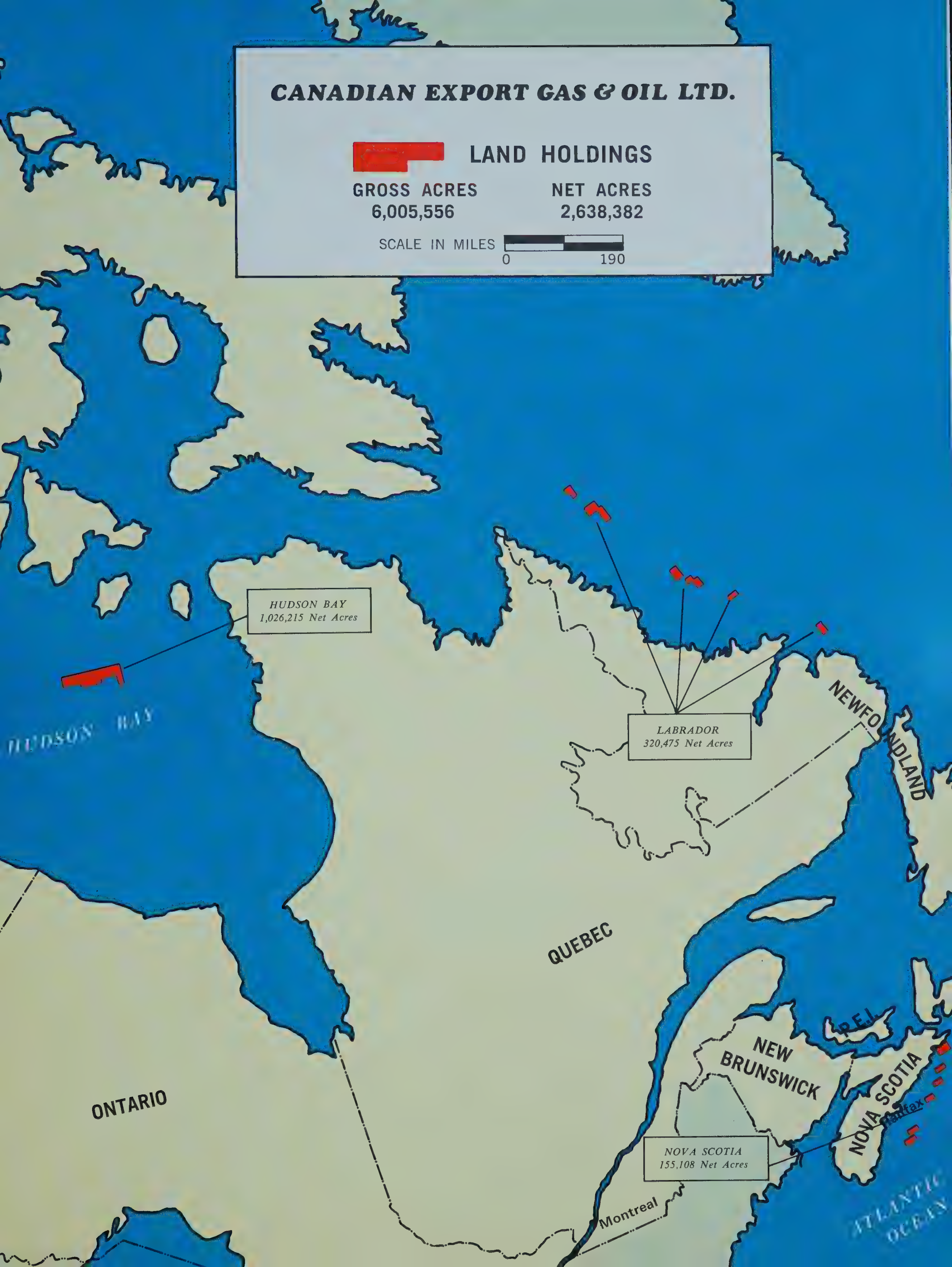
	Gross	Net
Artillery Lake	4,545	4,545
Keewatin Area	15,070	5,023
	19,615	9,568

ROYALTY INTERESTS:

	Gross	Royalty Interest
Alberta:	640	15%
	12,475	Varying Interests
Total Alberta:	13,115	
Saskatchewan:	153,461	2½%
	6,600	Varying Interests
	12,360	Mineral Titles
Total Saskatchewan:	172,421	
Manitoba:	800	5%
	2,963	Varying Interests
	4,410	½ Mineral Titles
Total Manitoba:	8,173	
Northwest Territories:	31,122	0.34%
Total Royalty and Mineral Interests	224,841	

These two pictures show the Strachan plant which this year became a significant revenue source for Canadian Export. The plant produces natural gas, natural gas liquids and sulphur. The sulphur storage area can be seen behind the plant and to the extreme right.

BEAUFORT SEA
ALASKA
YUKON
TERRITORY
BEAUFORT SEA
412,319 Net Acres
GT. BEAR LAKE
287,117 Net Acres
NORTHWEST
TERRITORIES
BRITISH
COLUMBIA
ALBERTA
SASKATCHEWAN
MANITOBA
SEE DETAILED
MAP — PAGE 7
Edmonton
Calgary
Vancouver
Regina
Winnipeg
PACIFIC OCEAN
UNITED
STATES

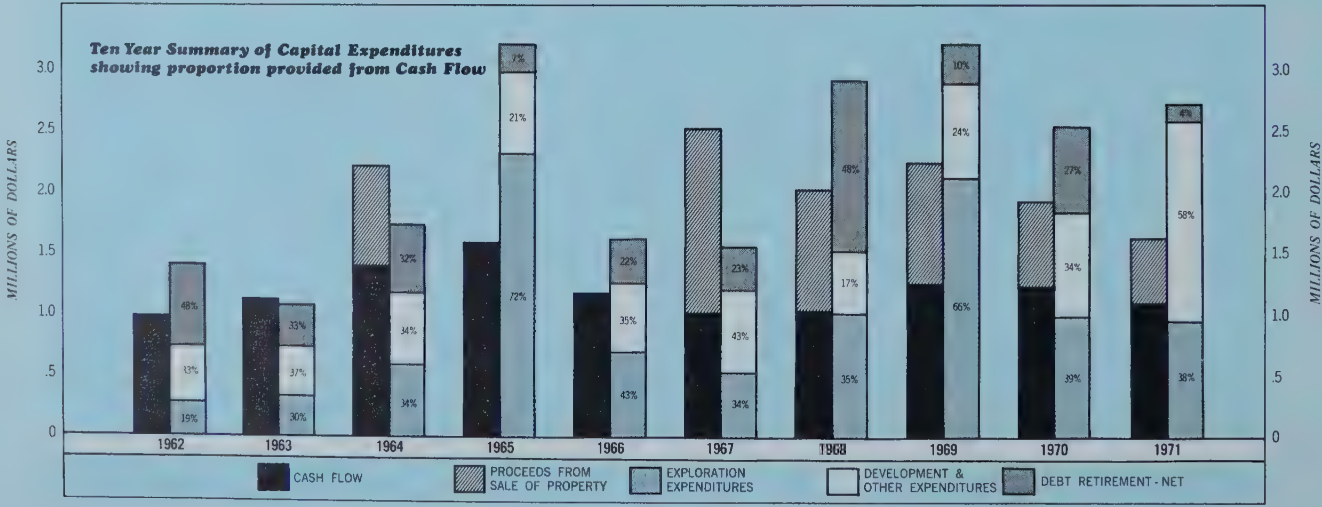

CANADIAN EXPORT GAS & OIL LTD.
LAND HOLDINGS
GROSS ACRES
6,005,556
NET ACRES
2,638,382
SCALE IN MILES
0
190
HUDSON BAY
1,026,215 Net Acres
HUDSON BAY
LABRADOR
320,475 Net Acres
NEWFOUNDLAND
QUEBEC
ONTARIO
P.E.I.
NEW BRUNSWICK
NOVA SCOTIA
Halifax
NOVA SCOTIA
155,108 Net Acres
Montreal
ATLANTIC OCEAN

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

Year ended April 30, 1971
(with comparative figures for 1970)

		1971		1970
SOURCE OF FUNDS:				
Cash flow from operations (Net earnings plus provisions, bond discount, dry holes and abandoned properties less gain on sale of properties)		$1,101,000		1,181,000
Bank loans		693,000		–
Proceeds from sale of properties		563,000		700,000
Proceeds from sale of capital stock		5,000		102,000
Reservation deposits refunded		–		135,000
Reduction of working capital		293,000		417,000
TOTAL FUNDS EMPLOYED		$2,655,000		2,535,000
DISPOSITION OF FUNDS:				
Exploration:				
Land acquisition and exploration surveys	20%	$ 532,000	28%	706,000
Wildcat and stepout drilling	18	483,000	11	287,000
Development and other expenditures:				
Drilling and equipment of wells	11	298,000	23	577,000
Gas gathering systems, plants and miscellaneous (net)	47	1,231,000	11	267,000
FUNDS INVESTED IN THE COMPANY	96	2,544,000	73	1,837,000
Long-term debt reduction:				
Company's sinking fund debentures	4	111,000	13	342,000
Bank loans	–	–	14	356,000
TOTAL FUNDS USED	100%	$2,655,000	100%	2,535,000

See accompanying notes



CONSOLIDATED STATEMENT OF EARNINGS

Year ended April 30, 1971
(with comparative figures for 1970)

		1971	1970
OPERATING INCOME:			
Crude oil and natural gas sales, less royalties		$ 2,307,000	2,238,000
Royalty income		158,000	161,000
Sulphur sales		12,000	20,000
		2,477,000	2,419,000
Less production expenses		679,000	582,000
		1,798,000	1,837,000
Deduct administrative and general expenses		297,000	278,000
Net operating profit before the following		1,501,000	1,559,000
OTHER CHARGES, NET:			
Share transfer and other shareholder expenses	$ 90,000		98,000
Acreage rentals on non-producing properties	249,000		186,000
Interest on debentures	15,000		29,000
Interest, other	79,000		95,000
Amortization of bond discount	8,000		10,000
Dry holes and abandoned properties	398,000		469,000
	839,000		887,000
Deduct miscellaneous income	33,000		30,000
		806,000	857,000
Net earnings before the following provisions		695,000	702,000
PROVISIONS:			
Depletion and amortization	343,000		312,000
Depreciation (Note 2)	149,000		211,000
		492,000	523,000
Net earnings before extraordinary item		203,000	179,000
EXTRAORDINARY ITEM:			
Gain on sale of properties		218,000	196,000
Net earnings (Note 9)		$ 421,000	375,000
Earnings per share (Note 10):			
Earnings before extraordinary item		$ .02	.02
Earnings for the year		$ .05	.05

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended April 30, 1971
(with comparative figures for 1970)

	1971	1970
RETAINED EARNINGS, at beginning of year, as previously reported	$ 5,517,000	5,119,000
Adjustment of prior year's operating income (Note 3)	56,000	—
Adjustment of prior year's depreciation (Note 2)	(33,000)	—
	23,000	—
Balance, as restated	5,494,000	5,119,000
Net earnings for year	421,000	375,000
RETAINED EARNINGS, at end of year	$ 5,915,000	5,494,000

See accompanying notes

CONSOLIDATED BALANCE SHEET

April 30, 1971
(with comparative figures for 1970)

Assets

		1971	1970
CURRENT ASSETS:			
Cash		$ 187,000	172,000
Marketable securities, at cost (quoted market value $210,000; 1970, $194,000)		169,000	174,000
Accounts receivable		827,000	1,316,000
Inventories of equipment, at the lower of cost or net realizable value		50,000	41,000
Total current assets		1,233,000	1,703,000
REFUNDABLE DEPOSITS AND INVESTMENTS, at cost (Note 1)		316,000	315,000
FIXED ASSETS, at cost (Note 2)			
Productive properties and equipment	$15,431,000		13,878,000
Other assets	122,000		115,000
	15,553,000		13,993,000
Less accumulated depreciation, depletion and amortization	6,309,000		6,223,000
	9,244,000		7,770,000
Undeveloped properties	3,588,000		3,726,000
		12,832,000	11,496,000
DEFERRED CHARGES (unamortized):			
Exploration and preproduction expenditures (Note 1)	1,574,000		1,600,000
Bond discount	—		8,000
		1,574,000	1,608,000
		$15,955,000	15,122,000

Liabilities

		1971	1970
CURRENT LIABILITIES:			
Accounts payable and accrued expenses		$ 737,000	951,000
Payments required for debenture sinking funds (Note 5) . .		110,000	278,000
Bank loans due within one year (secured) (Note 4)		562,000	356,000
Total current liabilities		1,409,000	1,585,000
BANK LOANS, net of current portion (secured) (Note 4) . .		835,000	142,000
FUNDED DEBT (Note 5)		—	111,000
SHAREHOLDERS' EQUITY:			
Capital stock (Notes 5 and 6):			
Shares of a par value of 16⅔ cents each. Authorized 12,000,000 shares.			
Issued 8,168,577 shares (1970, 8,166,677 shares)	$ 1,362,000		1,361,000
Contributed surplus	6,434,000		6,429,000
	7,796,000		7,790,000
Retained earnings	5,915,000		5,494,000
		13,711,000	13,284,000
		$15,955,000	15,122,000

Approved on behalf of the Board:

AUGUST F. BECK, Director

FRANCIS E. RINEHART, Director

See accompanying notes

NOTES TO FINANCIAL STATEMENTS April 30, 1971

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of all of the company's subsidiaries as at April 30, 1971. All inter-company accounts and transactions have been eliminated in consolidation.

In settlement of advances the company has received from a former subsidiary, Bluewater Oil & Gas Limited, a 5% convertible floating charge debenture in the amount of $300,000 due in varying amounts from 1975 to 1979, which is included in the accompanying balance sheet under refundable deposits and investments at the net cost of $159,000.

Exploration and preproduction expenditures incurred to June 30, 1957 by a subsidiary company, Canex Gas Ltd. are being amortized by the unit of production method based on estimated recoverable gas reserves of that company as at that date.

2. CHANGE IN DEPRECIATION POLICY:

The companies have changed the method of providing depreciation on production equipment from the diminishing balance method to the unit of production method based on the estimated recoverable reserves of oil and gas. For comparative purposes this change was made retroactive to May 1, 1969 and results in an increase of $33,000 in the previously reported net earnings for the year ended April 30, 1970 and an increase of $75,000 in the net earnings for the year ended April 30, 1971. Had the companies not changed the method of providing depreciation the net earnings for the year ended April 30, 1971 would have been $128,000 before extraordinary item and $346,000 thereafter or 1.5 cents and 4 cents per share respectively.

3. PRIOR YEAR'S ADJUSTMENT:

In the previous year, the company was allocated income from certain producing properties on an interim basis. During the current year the company's working interest was redetermined in accordance with the terms of the governing unit agreement, resulting in a reduction of $56,000 to the previous year's operating income.

The 1970 figures have been restated to reflect the change in method of providing depreciation as set out in Note 2 and the foregoing prior year's adjustment to operating income.

4. BANK LOANS:

Although the bank loans are subject to call on demand, under the agreed terms of repayment an amount of $562,000 will be repaid within the next twelve months. These loans are secured by certain of the companies' properties and production proceeds.

5. FUNDED DEBT:

Funded debt consists of the following:

	Current portion	Funded debt
Canex Gas Ltd.:		
5% Convertible Sinking Fund Debentures, Series A, maturing July 15, 1971	$110,000	—

The Series A debentures of Canex Gas Ltd., are convertible into shares of that company at the rate of 40 shares per $500 debenture until their maturity date. During the year ended April 30, 1971, 120 shares of Canex Gas Ltd., were issued upon the conversion of debentures.

6. CAPITAL STOCK:

During the year the company issued the following shares of capital stock:

Number of shares		Allocation of Consideration: Total	Capital Stock	Contributed surplus
1,600	to employees for $1.53 to $3.70 cash per share	$ 3,750	267	3,483
300	for 120 shares of Canex Gas Ltd. which had been issued upon conversion of $1,500 principal amount of Canex Gas Ltd. debentures	1,500	50	1,450
1,900	. . . .	$ 5,250	317	4,933

The company has reserved the following shares of its capital stock:

21,900	shares in respect of the offer to accept shares of Canex Gas Ltd.
32,000	shares for stock options to employees.
53,900	

NOTES TO FINANCIAL STATEMENTS ~ *Continued*

The following restricted stock options granted to eight employees were outstanding at April 30, 1971:

		Expiry Date
14,000	shares at $3.70 per share (exercisable one-fifth each year commencing August 23, 1967 on a cumulative basis)	December 20, 1971
18,000	shares at $7.15 per share (exercisable one-fifth each year commencing February 1, 1969 on a cumulative basis)	May 31, 1973

7. CONTINGENT ACCOUNT RECEIVABLE:

In 1967, the company sold an interest in certain non-producing properties for $6,000,000 of which $4,000,000 has been received in instalments over the past four years and included in the appropriate financial statements. Under the terms of the agreement the remaining $2,000,000 is receivable on or before December 31, 1972, subject to reduction by the amount spent by the purchaser, on the company's behalf, in exploring the joint properties. At April 30, 1971, the unexpended balance amounted to $1,670,000 and this is not reflected in the financial statements as the ultimate balance receivable cannot be determined.

8. REMUNERATION PAID TO DIRECTORS AND SENIOR OFFICERS:

Remuneration paid during the year to directors and senior officers amounted to $129,000 (1970, $126,000).

9. INCOME TAXES:

For income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. The capital cost allowances claimed are not significantly different from the depreciation provided in the accounts.

Drilling, exploration and lease acquisition costs in excess of taxable income may be carried forward and applied against earnings in future years. At April 30, 1971, no income taxes were payable and the companies on a consolidated basis were entitled to carry forward expenditures estimated to be as follows:

Drilling, exploration and lease acquisition costs	$2,700,000
Capital cost allowances	$2,960,000

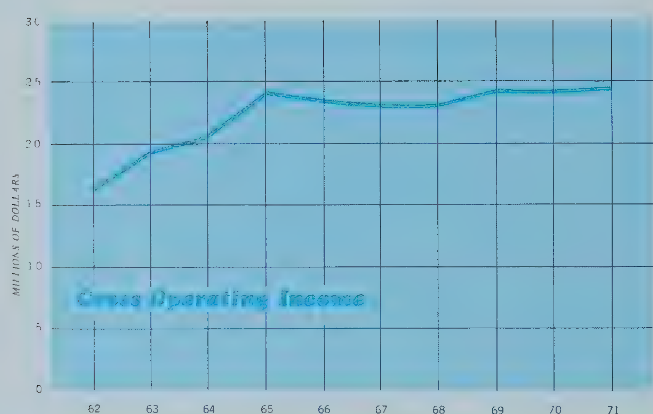
The Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has recommended that the income tax allocation method of accounting should be adopted whereby a provision is made for income taxes based on the earnings reported in the accounts. However, management does not believe it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs, insofar as it presently intends to continue to incur such expenditures and therefore it is not possible to estimate when income taxes will be payable. This view of management conforms with general practice in the oil and gas industry and is accepted by accounting authorities outside Canada.

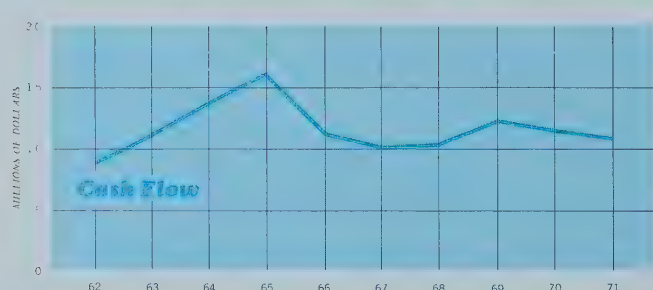
If the tax allocation basis had been followed for all timing differences between taxable income and reported income, deferred income taxes of $77,000 ($156,000 in 1970, as restated) would have been provided and net income for the year would have been reduced accordingly. The accumulated income tax reductions relating to all timing differences in the current and prior years amount to approximately $2,686,000 at April 30, 1971.

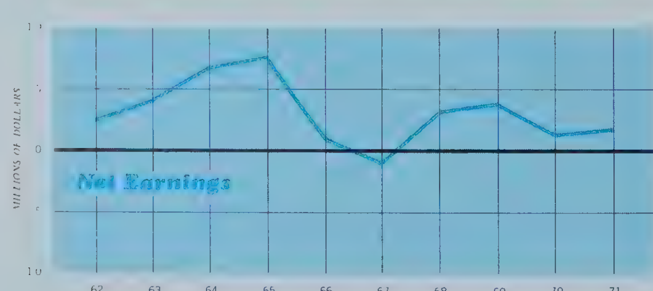
10. EARNINGS PER SHARE:

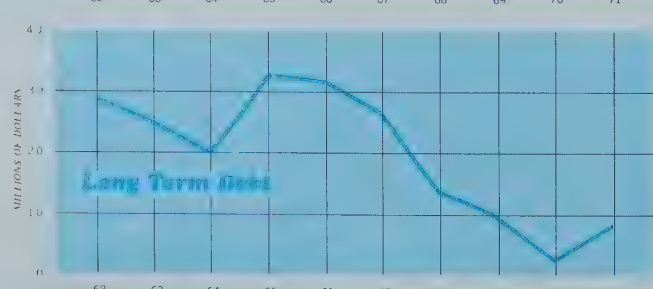
Earnings per share figures are calculated using the weighted average number of shares outstanding during the respective fiscal years. Fully diluted earnings per share are not presented as there would be no material change.

TEN YEAR STATISTICAL SUMMARY 1962/71









PRODUCTION:	
Oil—Annual	Barrels
Daily Average	Barrels
Gas—Annual	Billion Cubic Feet
Daily Average	Million Cubic Feet
Sulphur—Annual	Long Tons
Daily Average	Long Tons
EARNINGS:	
Gross operating income less royalties paid	$
Production expenses	$
Administrative and general expenses	$
Share transfer and other shareholder expenses	$
Acreage rentals on non-producing properties	$
Interest and miscellaneous, net	$
	$
Cash flow from operations	$
Dry holes and abandoned properties	$
Other non-cash charges or (income) net	$
	$
Net earnings before depletion and depreciation	$
Depletion and depreciation	$
Net earnings (loss) before extraordinary items	$
Extraordinary items—gain or (loss) net	$
Net earnings	$
CAPITAL STRUCTURE:	
Number of shares outstanding	
Shareholders equity	$
Funded debt	$
Bank and other loans	$
(Working capital) or deficiency	$
Total capital employed	$
CAPITAL INVESTMENT:	
Fixed assets, net—beginning of year	$
Exploration expenditures	$
Development expenditures	$
(Abandonments, provisions and adjustments, net)	$
Fixed assets, net—end of year	$
Deferred charges, unamortized	$
Other non-current assets	$
Total capital invested	$
SIGNIFICANT RATIOS:	
Net earnings to gross earnings	%
Cash flow to gross earnings	%
Operating expenses to gross earnings	%
Net earnings return on capital invested	%
Shareholders' equity to total capital employed	%
Cash flow per share	¢
Net earnings before extraordinary items per share	¢
Net earnings per share	¢
WELLS DRILLED—GROSS (NET):	
Exploratory —Oil	
Gas	
Dry	
Development—Oil	
Gas	
Dry	
Total wells drilled	
Total footage drilled	
LAND HOLDINGS:	
Gross acreage	
Net acreage	
OWNERS AND EMPLOYEES:	
Number of shareholders	
Number of employees	

1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
480,268	486,192	440,729	443,029	425,690	403,883	414,111	382,515	414,404	360,027
1,316	1,332	1,207	1,214	1,166	1,107	1,135	1,048	1,135	986
6.804	6.779	6.946	6.562	6.867	7.945	8.710	7.466	5.752	5.523
19	19	19	18	19	22	24	20	16	15
5,466	3,855	2,992	—	—	—	—	—	—	—
15	11	8	—	—	—	—	—	—	—
477,000	2,419,000	2,420,000	2,290,000	2,259,000	2,337,000	2,397,000	2,102,000	1,915,000	1,694,000
679,000	582,000	540,000	538,000	498,000	518,000	438,000	401,000	418,000	377,000
297,000	278,000	253,000	281,000	264,000	224,000	102,000	103,000	134,000	169,000
90,000	98,000	73,000	110,000	124,000	74,000	33,000	29,000	25,000	35,000
249,000	186,000	221,000	190,000	175,000	216,000	124,000	45,000	47,000	41,000
61,000	94,000	89,000	147,000	180,000	133,000	112,000	129,000	165,000	188,000
376,000	1,238,000	1,176,000	1,266,000	1,241,000	1,165,000	809,000	707,000	789,000	810,000
101,000	1,181,000	1,244,000	1,024,000	1,018,000	1,172,000	1,588,000	1,395,000	1,126,000	884,000
398,000	469,000	317,000	157,000	515,000	498,000	256,000	220,000	146,000	138,000
8,000	10,000	10,000	10,000	10,000	10,000	(12,000)	(5,000)	(10,000)	(37,000)
406,000	479,000	327,000	167,000	525,000	508,000	244,000	215,000	136,000	101,000
695,000	702,000	917,000	857,000	493,000	664,000	1,344,000	1,180,000	990,000	783,000
492,000	523,000	521,000	557,000	591,000	638,000	526,000	502,000	502,000	516,000
203,000	179,000	396,000	300,000	(98,000)	26,000	818,000	678,000	488,000	267,000
218,000	196,000	—	—	3,592,000	—	—	542,000	—	—
421,000	375,000	396,000	300,000	3,494,000	26,000	818,000	1,220,000	488,000	267,000
168,577	8,166,677	8,141,944	8,059,944	7,919,769	7,828,394	7,828,394	7,828,394	7,828,394	7,828,394
711,000	13,284,000	12,807,000	11,694,000	10,976,000	7,250,000	7,281,000	6,464,000	5,243,000	4,756,000
—	111,000	453,000	707,000	1,033,000	1,284,000	1,535,000	1,784,000	2,033,000	2,279,000
835,000	142,000	498,000	580,000	1,661,000	1,768,000	1,667,000	226,000	537,000	712,000
176,000	(118,000)	(535,000)	(765,000)	(1,233,000)	135,000	196,000	28,000	385,000	418,000
722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000	8,198,000	8,165,000
496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000	5,935,000	5,953,000	5,847,000
015,000	993,000	2,096,000	1,009,000	515,000	692,000	2,296,000	571,000	328,000	266,000
529,000	844,000	741,000	494,000	654,000	569,000	673,000	552,000	400,000	463,000
208,000)	(965,000)	(1,135,000)	(693,000)	(1,557,000)	(946,000)	(1,050,000)	(792,000)	(746,000)	(623,000)
832,000	11,496,000	10,624,000	8,922,000	8,112,000	8,500,000	8,185,000	6,266,000	5,935,000	5,953,000
574,000	1,608,000	1,649,000	1,690,000	1,729,000	1,768,000	1,812,000	1,861,000	1,906,000	1,942,000
316,000	315,000	950,000	1,604,000	2,596,000	169,000	682,000	375,000	357,000	270,000
722,000	13,419,000	13,223,000	12,216,000	12,437,000	10,437,000	10,679,000	8,502,000	8,198,000	8,165,000
8	7	16	13	—	1	34	32	25	16
44	49	51	45	45	50	66	66	59	52
39	36	33	36	34	32	23	24	29	32
1	1	3	3	—	—	8	8	6	3
93	99	97	96	88	69	68	76	64	58
13	14	15	13	13	15	20	18	14	11
2	2	5	4	—	—	10	9	6	3
5	5	5	4	44	—	10	16	6	3
— (—)	2 (0.2)	2 (0.5)	— (—)	3 (1.0)	3 (1.5)	4 (1.8)	2 (0.7)	— (—)	— (—)
1 (0.1)	1 (0.1)	3 (0.1)	4 (0.8)	1 (0.3)	1 (0.5)	— (—)	— (—)	2 (0.2)	2 (0.6)
9 (0.9)	11 (1.1)	12 (2.9)	6 (—)	14 (2.5)	12 (4.8)	7 (3.2)	15 (3.9)	8 (1.9)	3 (0.8)
3 (0.6)	2 (0.7)	1 (0.3)	2 (0.7)	6 (2.0)	9 (4.1)	10 (3.8)	2 (0.7)	— (—)	1 (0.3)
2 (0.3)	4 (0.5)	14 (9.2)	3 (0.8)	3 (2.5)	2 (2.0)	— (—)	— (—)	3 (3.0)	4 (4.0)
1 (0.2)	1 (—)	1 (1.0)	— (—)	1 (0.5)	3 (1.2)	1 (0.3)	1 (0.2)	— (—)	— (—)
16 (2.1)	21 (2.6)	33(14.0)	15 (2.3)	28 (8.8)	30(14.1)	22 (9.1)	20 (5.5)	13 (5.1)	10 (5.7)
129,000′	178,000′	177,000′	75,000′	126,000′	129,000′	123,000′	100,000′	63,000′	52,000′
006,000	6,530,000	5,365,000	2,159,000	2,221,000	2,698,000	2,832,000	893,000	4,336,000	4,340,000
638,000	2,728,000	3,264,000	703,000	1,105,000	2,042,000	2,227,000	307,000	324,000	323,000
12,584	10,433	9,134	8,992	8,586	7,790	5,022	5,250	5,521	5,413
31	32	33	33	33	37	38	32	31	35

AUDITORS' REPORT TO THE SHAREHOLDERS

PEAT, MARWICK, MITCHELL & CO.
CHARTERED ACCOUNTANTS

309 EIGHTH AVENUE S.W.
CALGARY, ALBERTA

We have examined the consolidated balance sheet of Canadian Export Gas & Oil Ltd. and subsidiaries as of April 30, 1971 and the consolidated statements of earnings, retained earnings and source and disposition of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at April 30, 1971 and the results of their operations and the source and disposition of their funds for the year then ended in accordance with generally accepted accounting principles which, except for the change in the method of providing for depreciation as more fully explained in Note 2, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co
Chartered Accountants

Calgary, Alberta
May 27, 1971

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